The Manitoba Hydro-Electric Board

QUARTERLY REPORT

for the six months ended September 30, 2015

Comments by

THE CHAIR OF THE BOARD

and by

THE ACTING PRESIDENT AND CHIEF EXECUTIVE OFFICER

Financial Overview

Manitoba Hydro's consolidated net loss from electricity and natural gas operations was $43 million for the first six months of the 2015-16 fiscal year compared to a net loss of $13 million for the same period last year. The increase in the net loss is primarily attributable to higher expenses partially offset by higher extraprovincial and domestic revenues.

The consolidated net loss was comprised of a $19 million loss in the electricity sector and a $24 million loss in the natural gas sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and is expected to be recouped over the winter heating season.

Manitoba Hydro is experiencing lower opportunity export market prices for electricity than projected as a result of low natural gas prices which are expected to result in downward pressure on net income in 2015-16. Manitoba Hydro is forecasting that financial results will improve somewhat over the balance of the fiscal year and net income should reach approximately $30 million by March 31, 2016. This forecast is based on the continuation of current water flow conditions and the assumption of normal winter weather. There may be additional financial reporting impacts of the recent Public Utilities Board (PUB) rate decision for 2015-16 but the financial statements have not been adjusted pending further clarification from the PUB.

Electricity Operations

Revenues from electricity sales within Manitoba totaled $620 million for the six-month period, which was $8 million or 1% higher than the same period last year. The increase in domestic revenue was primarily attributable to the August 1, 2015 electric rate increase. Extraprovincial revenues of $244 million were $16 million or 7% higher than the same period last year reflecting favourable foreign exchange impacts on U.S. sales, partially offset by lower dependable sales volumes. Energy sold in the export market was 6.2 billion kilowatt-hours compared to 6.6 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled $933 million for the six-month period, an increase of $50 million or 6% higher than the same period last year. The increase was primarily the result of a $25 million increase in finance expense, an $18 million increase in other expenses and a $14 million increase in operating and administrative costs. These increases were partially offset by a $13 million change in the net movement in regulatory deferral account balances. The increase in finance expense was primarily due to higher volumes of long-term debt to finance capital expenditures and the impact of the weakening Canadian dollar partially offset by lower interest rates. The increase in other expenses, which is mainly offset by the change in the net movement in regulatory deferral accounts is primarily the result of higher spending on demand-side management programs (DSM). The increase in operating and administrative costs is mainly due to higher benefit costs as a result of a lower market driven discount rate and higher costs of system maintenance.

The net loss before net movement in regulatory deferral balances is $30 million. After considering the net movement of $5 million in the regulatory deferral account balances, there is a net loss of $25 million of which $19 million is attributable to Manitoba Hydro and $6 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigahp Power Corporation's 33⅓% share of the Wuskwatim Power Limited Partnership's operating results, for the first six months of the 2015-16 fiscal year.

Capital expenditures for the six-month period amounted to $1 001 million compared to $943 million for the same period last year. Expenditures during the current period included $354 million related to future Keeyask generation, $336 million for the Bipole III project and $36 million for the Pointe du Bois spillway replacement project. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The corporation also incurred $22 million for electric DSM programs.

Natural Gas Operations

In the natural gas sector, a net loss of $24 million was incurred for the six-month period compared to a $20 million net loss for the same period last year. Revenue, net of cost of gas sold (net revenue), was $40 million which was $10 million higher than the same period last year. The increase in net revenue was largely the result of lower gas costs compared to the prior year partially offset by warmer weather than the previous period. Delivered gas volumes were 564 million cubic metres compared to 596 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to $70 million which is the same as last year.

The net loss before net movement in regulatory deferral balances is $30 million. The $14 million change in the regulatory deferral account balance over the prior year is primarily attributable to a greater differential in the prior year between the actual cost of gas compared to PUB approved rates. After considering the net movement of $6 million in the regulatory deferral account balances, there is a net loss of $24 million.

Capital expenditures in the natural gas sector were $18 million for the current six-month period compared to $16 million for the same period last year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The corporation also incurred $4 million for gas DSM programs.

Electricity Rate Increase

Electricity rates for all customer classes increased by approximately 3.95% effective August 1, 2015. The rate increase is necessary to fund the capital investment to meet the growing energy requirements of Manitoba, replace aging utility assets and address the increased capacity needs of the existing electricity system to ensure a safe and reliable energy supply for Manitobans.

The PUB directed that 1.8% of the increase be used to support Manitoba Hydro's ongoing operations and the remaining 2.15% be added to the previously established deferral account to mitigate rate increases when the Bipole III project comes into service.

100 MW Sale to SaskPower Announced

On September 13, 2015, Manitoba Hydro announced the signing of a Term Sheet for a 20-year agreement between Manitoba Hydro and SaskPower for the sale of a minimum of 100 megawatts (MW) of power starting in 2020. The sale requires 18% of the dependable energy output from the Keeyask Generating Station which is under construction on the Nelson River.

The sale requires the construction of an 80-kilometre, 230 kilovolt (kV) transmission line between Birtle, Manitoba and Tantallon, Saskatchewan with both utilities sharing the cost.

Manitoba Hydro has $9 billion worth of firm export sales with U.S. and Canadian utilities with more than $4 billion of those contracts directly dependent on the Keeyask project. Manitoba Hydro signed an earlier agreement with SaskPower to supply 25 MW beginning November 2015 until May 2022. In 2013, the two utilities signed a Memorandum of Understanding in which the utilities agreed to study sales of up to 500 MW of power to Saskatchewan beginning in about 2020.

Final Preferred Route Selected for Manitoba-Minnesota Transmission Project

On September 23, 2015, Manitoba Hydro announced the Final Preferred Route for the Manitoba-Minnesota Transmission Project. As part of the process of securing the license for the project under the Environment Act of Manitoba, the corporation filed an environmental impact statement with provincial regulators.

The project involves the construction of a 213-kilometre, 500 kV line from the Dorsey Converter Station near Rosser to the Manitoba border crossing near Piney where it will connect to the proposed Great Northern Transmission Line (GNTL) being built by Minnesota Power. The GNTL will run from the border to the Blackberry Substation near Grand Rapids, Minnesota, which is approximately 100 kilometres northwest of Duluth, Minnesota.

The line is required to increase the delivery of surplus power to markets in the U.S. and to enhance Manitoba Hydro's import capability from the U.S. during droughts or other system emergencies, improving the reliability of the province's power supply.

The estimated cost of the project is $350 million, with an anticipated in-service date of 2020, subject to regulatory approval.

Power Smart LED Street Light Conversion Update

More than 15 000 energy efficient street lights have been installed throughout the province under Manitoba Hydro's Power Smart LED Roadway Lighting Conversion Program. The program, launched in June 2014, will result in the replacement over the next four years of approximately 150 000 high pressure sodium (HPS) streetlights with new light emitting diode (LED) streetlights. By the end of the four year period, the program will result in the replacement of 90% of the older-style street lights throughout the province, making it one of the largest geographic replacement programs in North America.

The goal of the program is to save an estimated five megawatts and 35 gigawatt-hours of energy, which is the equivalent to the energy used by 2 200 average homes in Manitoba in one year. In addition to using 40% less electricity, LED lights have a longer life expectancy, better performance in cold weather and improved quality of light for pedestrians and drivers. Further, they provide municipalities and cities with significantly lower maintenance and replacement costs.

*Manitoba Hydro is a licensee of the Trademark and Official Mark.

William Fraser, FCA
Chair of the Board

Darren Rainkie, CA
Acting President and
Chief Executive Officer
November 13, 2015

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		Three Months Ended September 30	
	2015	**2014**	**2015**	**2014**
Revenues				
Domestic – Electric	620	612	310	298
– Gas	96	109	36	40
Extraprovincial	244	228	133	126
Other	44	37	23	20
	1 004	986	502	484
Expenses				
Cost of gas sold	56	79	23	27
Operating and administrative	298	284	148	145
Finance expense	285	260	142	136
Depreciation and amortization	195	195	97	105
Water rentals and assessments	61	62	30	33
Fuel and power purchased	57	54	31	27
Capital and other taxes	62	58	32	29
Other expenses	50	32	27	17
	1 064	1 024	530	519
Net income (loss) before net movement in regulatory deferral account balances	(60)	(38)	(28)	(35)
Net movement in regulatory deferral account balances	11	12	11	5
Net Income (Loss)	(49)	(26)	(17)	(30)
Net income (loss) attributable to:				
Manitoba Hydro	(43)	(13)	(14)	(23)
Non-controlling interest	(6)	(13)	(3)	(7)
	(49)	(26)	(17)	(30)

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at September 30 **2015**	As at September 30 **2014**
Assets		
Current assets	915	847
Capital assets	16 081	14 434
Non-current assets	832	742
Regulatory deferral account debit balances	361	383
	18 189	16 406
Liabilities and Equity		
Current liabilities	1 268	758
Long-term debt (net)	12 895	11 501
Other long-term liabilities	1 582	1 364
Deferred revenue	466	404
Non-controlling interest	131	111
Retained earnings	2 683	2 630
Accumulated other comprehensive income	(836)	(362)
	18 189	16 406

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		Three Months Ended September 30	
	2015	**2014**	**2015**	**2014**
Operating Activities				
Cash receipts from customers	1 115	1 119	516	503
Cash paid to suppliers and employees	(608)	(703)	(326)	(220)
Net interest	(333)	(304)	(174)	(158)
	174	112	16	125
Financing Activities	743	885	351	513
Investing Activities	(1 030)	(832)	(526)	(479)
Net increase (decrease) in cash	(113)	165	(159)	159
Cash at beginning of period	494	142	540	148
Cash at end of period	381	307	381	307

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		Three Months Ended September 30	
	2015	**2014**	**2015**	**2014**
Net Income (Loss) attributable to Manitoba Hydro	(43)	(13)	(14)	(23)
Other Comprehensive Income (Loss)				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(107)	(25)	(138)	(87)
Realized foreign exchange (gains) losses on debt in cash flow hedges	(9)	-	(5)	-
	(116)	(25)	(143)	(87)
Comprehensive Income (Loss)	(159)	(38)	(157)	(110)

Segmented Information

In Millions of Dollars (Unaudited)

Six Months Ended September 30	Electricity		Gas		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue	908	877	96	109	1 004	986
Expenses	938	875	126	149	1 064	1 024
Net income (loss) before net movement in regulatory deferral account balances	(30)	2	(30)	(40)	(60)	(38)
Net movement in regulatory deferral account balances	5	(8)	6	20	11	12
Net Income (Loss)	(25)	(6)	(24)	(20)	(49)	(26)
Net income (loss) attributable to:						
Manitoba Hydro	(19)	7	(24)	(20)	(43)	(13)
Non-controlling interest	(6)	(13)	-	-	(6)	(13)
	(25)	(6)	(24)	(20)	(49)	(26)
Three Months Ended September 30						
Revenue	466	444	36	40	502	484
Expenses	471	457	59	62	530	519
Net income (loss) before net movement in regulatory deferral account balances	(5)	(13)	(23)	(22)	(28)	(35)
Net movement in regulatory deferral account balances	4	(3)	7	8	11	5
Net Income (Loss)	(1)	(16)	(16)	(14)	(17)	(30)
Net income (loss) attributable to:						
Manitoba Hydro	2	(9)	(16)	(14)	(14)	(23)
Non-controlling interest	(3)	(7)	-	-	(3)	(7)
	(1)	(16)	(16)	(14)	(17)	(30)
Total Assets	17 504	15 715	685	691	18 189	16 406

Generation and Delivery Statistics

	Six Months Ended September 30		*Three Months Ended September 30*	
	2015	**2014**	**2015**	**2014**
Electricity in gigawatt-hours				
Hydraulic generation	17 202	17 557	8 654	9 120
Thermal generation	16	16	16	11
Scheduled energy imports	22	42	13	12
Wind purchase (MB)	405	420	193	187
Total system supply	17 645	18 035	8 876	9 330
Gas in millions of cubic metres				
Gas sales	248	283	79	87
Gas transportation	316	313	138	130
	564	596	217	217

For further information contact:

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Cover: The bright white of new LED streetlights in the foreground contrast with the orange glow of older HPS streetlights in the distance. Manitoba Hydro aims to replace all streetlights in Manitoba with LED technology over the next five years, reducing energy consumption for street lighting by approximately 40-60 per cent.

Manitoba Hydro